

# **Lecture: Contemporary Economic History of Japan**

**No. 3**

## **Chapter 1: Japanese Economy in Interwar Period**

### **1-1 World War I As Period of Transition**

**Winter Semester, 2004**

**Haruhito Takeda**

# Chapter 1: Japanese Economy in Interwar Period

## 1—1 World War I As Period of Transition

- **Mar. 1911: Factory Acts enacted**
- **Feb. 1913: Taisho political upheaval**
- **Jul. 1914: Outbreak of WWI**
- **May 1915: Twenty-one demands made to Chinese government**
- **Jan. 1917: Onset of Nishihara loan**
- **Mar : Industrial Club of Japan founded**
- **Sep. : Gold standard halted**
- **- : Labor movement activated**
- **Aug. 1918: Troops dispatched to Siberia**
- **Aug. : Rice Riot**
- **Sep. : Hara Cabinet formed**
- **Nov. : Armistice**
- **Mar. 1919: 3/1 Independence movement in Korea**
- **May : 5/4 Movement in China**

# Siemens affair and a change of Government at Taisho era



20 シエメンズ事件の風刺画 軍艦「内閣丸」は、シエメンズ事件という岩で座礁した、というわけである。船首にいるのが山本首相、マストの近くにいるのが斎藤実海相である。「東京パック」1914年2月号より。

16 民衆の暴動 3度目の議会の停会を聞いた民衆は激昂した。その怒りは、桂内閣を支持した御用新聞社と民衆の運動を弾圧した警察とに向けられた。写真は、襲撃を受ける二六新報社(上)と焼き打ちされた上野署(下)。



- ※ (Source) : Haruhito TAKEDA "Imperialism and Democracy"
- (left) possession; A Journalism library of Meiji era, Tokyo university
- (right) offered; Japanese Contemporary History Studies

➔ **Prelude to Taisho era democracy**



# A rice riot and A party cabinet

Because of circumstances of copyright processing,  
we omit the picture;  
“The Okayama rice cleaning place that was burned”.

78 焼き打ちされた岡山精米所 シベリア出兵は、米の取り引きに決定的な買い材料を与えた。出兵による食料品の需要増加を見越して、投機的な買い占め、売り惜しみが激増、米価は暴騰した。騒動のなか、人々の怒りは投機的な取り引きを行った米穀商や富豪に向けられた。

A rice riot



45 寺内正毅 1902年、桂内閣の陸相となって日露戦争を進行し、以来1911年まで9年の長きにわたってその地位にあった。1910年からは韓国統監を兼任して韓国併合を実施、初代朝鮮総督となって武断的な政治を行った。

Masatake TERAUCHI Prime Minister



85 原敬 原敬の生まれた家は南部藩の家老職で、歴代首相のなかでは西園寺に次いで家格は高かった。だが、南部藩は戊辰戦争で官軍に敗れて朝敵の烙印を押され、「白河以北一山百文」と軽侮された。原敬はこれにちなんで「一山」と号した。原の首相就任に、人々は薩長藩閥支配の凋落を見た。

Takashi HARA Prime Minister

※explanation sentences are cited from Haruhito TAKEDA,  
“Imperialism and Democracy”

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Haruhito Takeda

# International Trade Balance in WWI Period

	Balance of Visible Trade			Balance of Invisible Trade			Specie Money
	Export	Inport	Balance	Receivable	Payable	Balance	Reserve
1912	527	619	-92	237	185	52	350
1913	632	729	-97	297	189	108	376
1914	591	596	-5	187	199	-12	341
1915	708	532	176	255	250	5	516
1916	1,127	756	371	453	614	-161	714
1917	1,603	1,036	567	686	615	71	1,105
1918	1,962	1,668	294	953	896	57	1,588
1919	2,099	2,713	-74	1,212	745	467	2,045
1920	1,948	2,356	-408	1,364	1,169	195	2,178



## 1-1-1 Particularities of WWI Period

- ① Collapse of international finance system  
Fixed foreign exchange rate under cessation of the gold standard → international spreading of price hike
- ② Shortage of marine vessels  
Isolated = greenhouse effects and a favorable swing in balance of invisible trade
- ③ European expansion in military demands = increase in exports
- ④ Disruption of imports = absence of international competition

# Profit ratio by Industrial Sector

%

Period	1914	15-16	17-18	19-20
Banking	12.3	12.5	16.2	28.8
Commercial Matter	19.6	61.0	90.6	36.9
Spinning	14.4	30.5	62.8	76.0
Sugar Manufacture	13.3	25.1	27.0	41.9
Milling	11.2	19.5	38.9	56.8
Mining	13.6	27.8	37.0	24.2
Marine Transport/Shipbuilding	13.9	42.1	102.5	48.6
Steel	18.6	18.2	40.2	8.0
Fertilizer	11.1	27.1	44.7	38.7
Electricity	9.1	10.2	13.5	12.7
Railway	7.1	7.9	11.2	13.3
Average	11.5	19.8	36.3	31.1



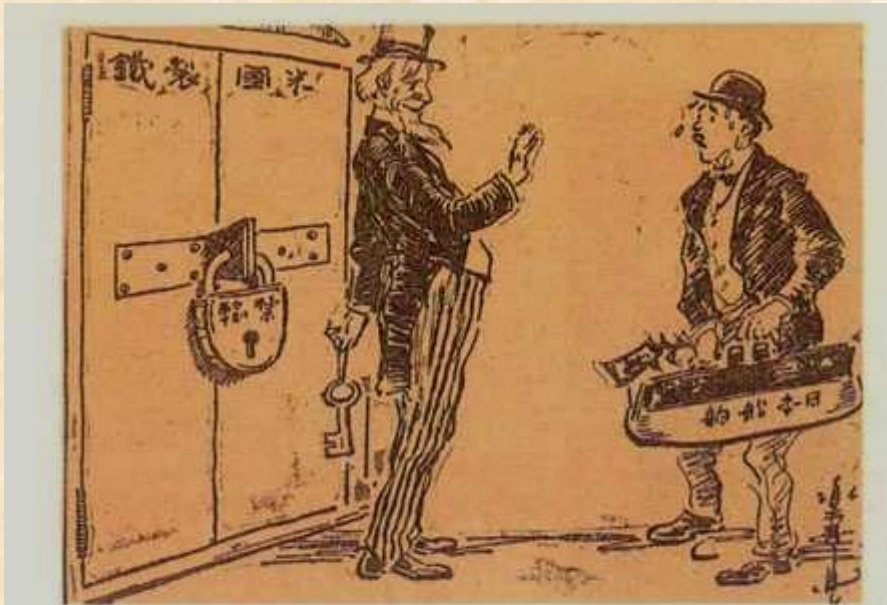
## 1-1-2 Upgrading of Industrial Structure

- Disrupted imports/expanded exports (③④) → Increased domestic demand → Price hike (&①)
- → Favorable swing in corporate performances → Investment activization ← Decline of interest rates (③④)
- → Upgrading of domestic industry structure

- ① Collapse of international finance system
- ② Favorable swing in balance of invisible trade
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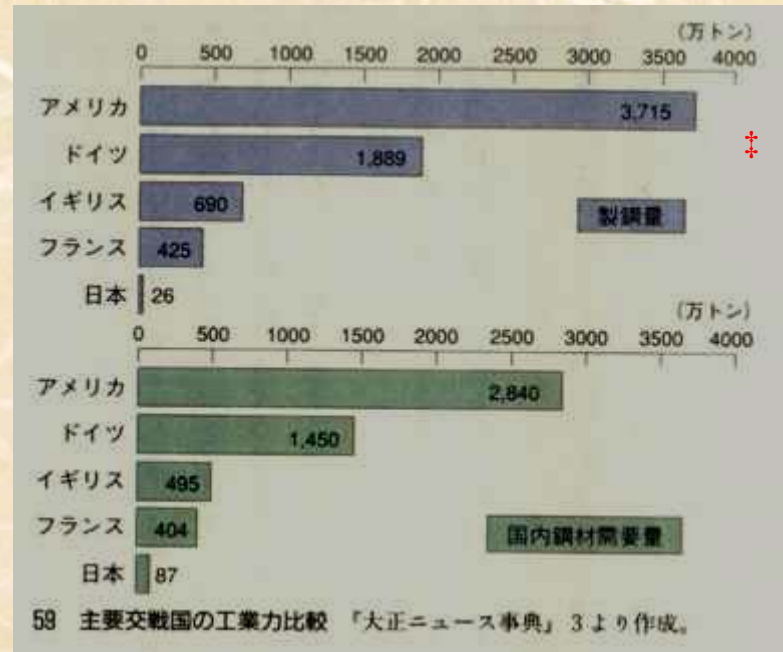
# Restriction of weak heavy industry productive capacity



60 「鉄は頗る高値だ」「米国の鉄輸出解禁の為め日本は大奮発でさつぱら(船舶供給)を切つて売り方の要求に応じるつもりだが……鉄は頗る高値で……この取引は中々捗らない」「時事新報」1917年10月29日。北沢楽天画。

「Iron is really very expensive」

Quantity of steel manufacture / steel materials demand comparison of a major country



(Source) Haruhito TAKEDA, "Imperialism and Democracy" p.78~79

# New Foundation and Expansion of Corporation

(million Yen)

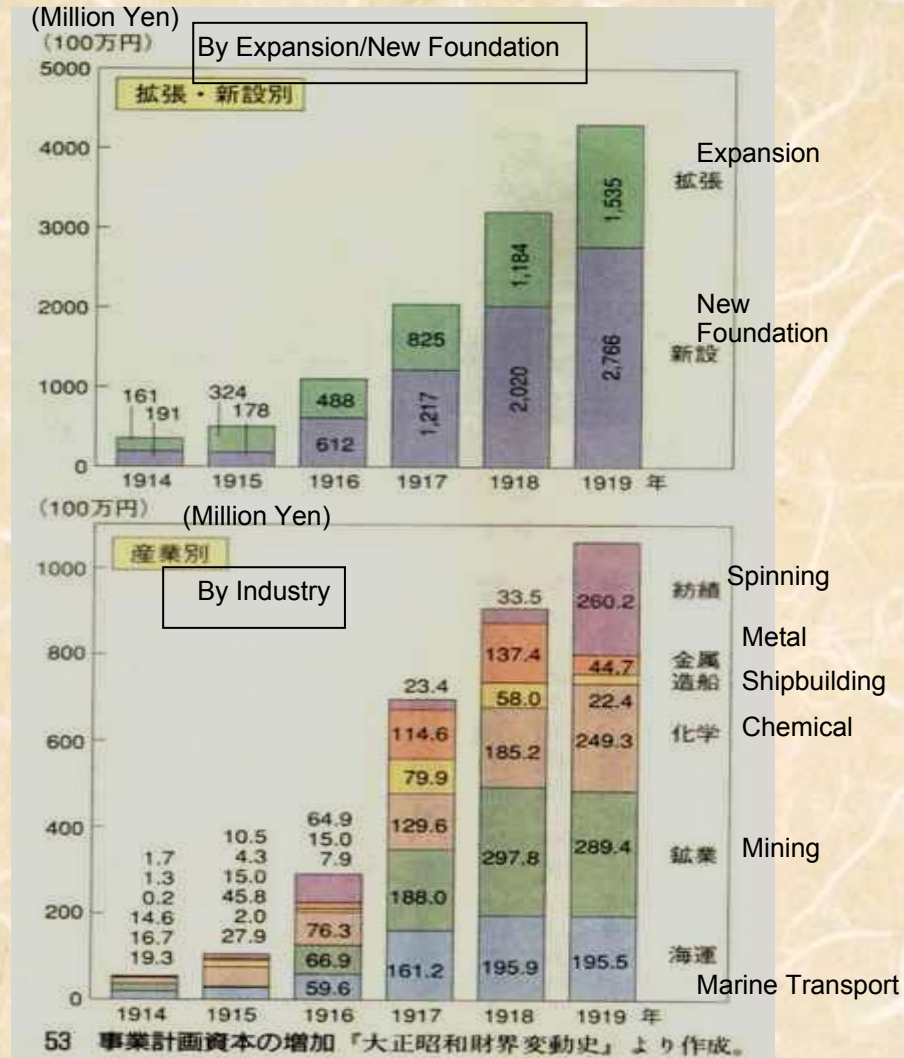
	1914	1919	1919/1914
Marine Transport	19.3	195.5	10.1
Mining	16.7	289.4	17.3
Chemical	14.6	249.3	17.1
Shipbuilding	0.2	22.4	112
Metal	1.3	44.7	34.4
Spinning	1.7	260.2	153.1
Woven Textile	3.2	213.9	66.8
All Enterprises	150.8	4068.50	16.2
New Installation	117.1	2680.50	22.9
Expansion	133.7	1388.00	10.4



# New Foundation/Expansion of Corporation

Not only limited to heavy industries centering on marine transport → shipbuilding → iron & steel, a general business expansion boom arouse under the status of disrupted imports bringing about supply deficiencies and sharp rises in price.

- Standing out among brisk corporate foundations until 1918 were in fields of marine transport, industrials, chemical, metal.
- And spinning rose sharply in 1919.



**Increases in Capitals for Business Projects** Drawn from *History of Changes in Financial Circles in Taisho and Showa Times*

# Changes in Industrial Structure

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**Chart 1-2 Changes in Industrial Composition: Production Value by Major Product as per Factory Statistics/Mining statistics, etc. (Unit: Million Yen)**

1914		1919		1929		1937	
Cotton Yarn	204	Raw Silk	780	Raw Silk	795	Iron & Steel	1,645
Raw Silk	158	Cotton Yarn	763	Railway	750	Cotton Yarn	1,054
Railway	152	Narrow Cloth	453	Cotton Yarn	678	Railway	909
Military Factory	149	Coal	442	Electricity	658	Electricity	835
Narrow Cloth	92	Railway	401	Broad Cloth	526	Broad Cloth	735
Coal	80	Narrow Silk Cloth	397	Iron & Steel	378	Raw Silk	510
Sake	70	Maritime Transport	378	Sake	301	Industrial Medicals	505
Iron & Steel	69	Iron & Steel	372	Coal	245	Coal	379
Nonferrous Metal	64	Military Factory	315	Military Factory	208	Military Factory	355
Electricity	57	Marine Vessel	312	Paper Manufacture	190	Knitting yarn	335
Narrow Silk Cloth	52	Broad Cloth	312	Printing	186	Rayon Filament Yarn	332
Sugar Manufacture	49	Sake	240	Woolen Textiles	176	Paper Manufacture	326
Generating Machine	29	Electricity	183	Sugar Manufacture	158	Sake	316
Paper Manufacture	29	Paper Manufacture	151	Wheat Flour	146	Fertilizer	311
Woolen Textiles	28	Woolen Textiles	122	Fertilizer	132	Electric Machine	296
Printing	26	Fertilizer	111	Broad Silk Cloth	130	Rayon Silk Fabric	285
Wheat Flour	25	Sugar Manufacture	104	Industrial Medicals	115	Printing	259
Fertilizer	25	Twisted Yarn	101	Lumber	112	Nonferrous Metal	241
Broad Cloth	20	Nonferrous Metal	98	Nonferrous Metal	102	Marine Vessel	225

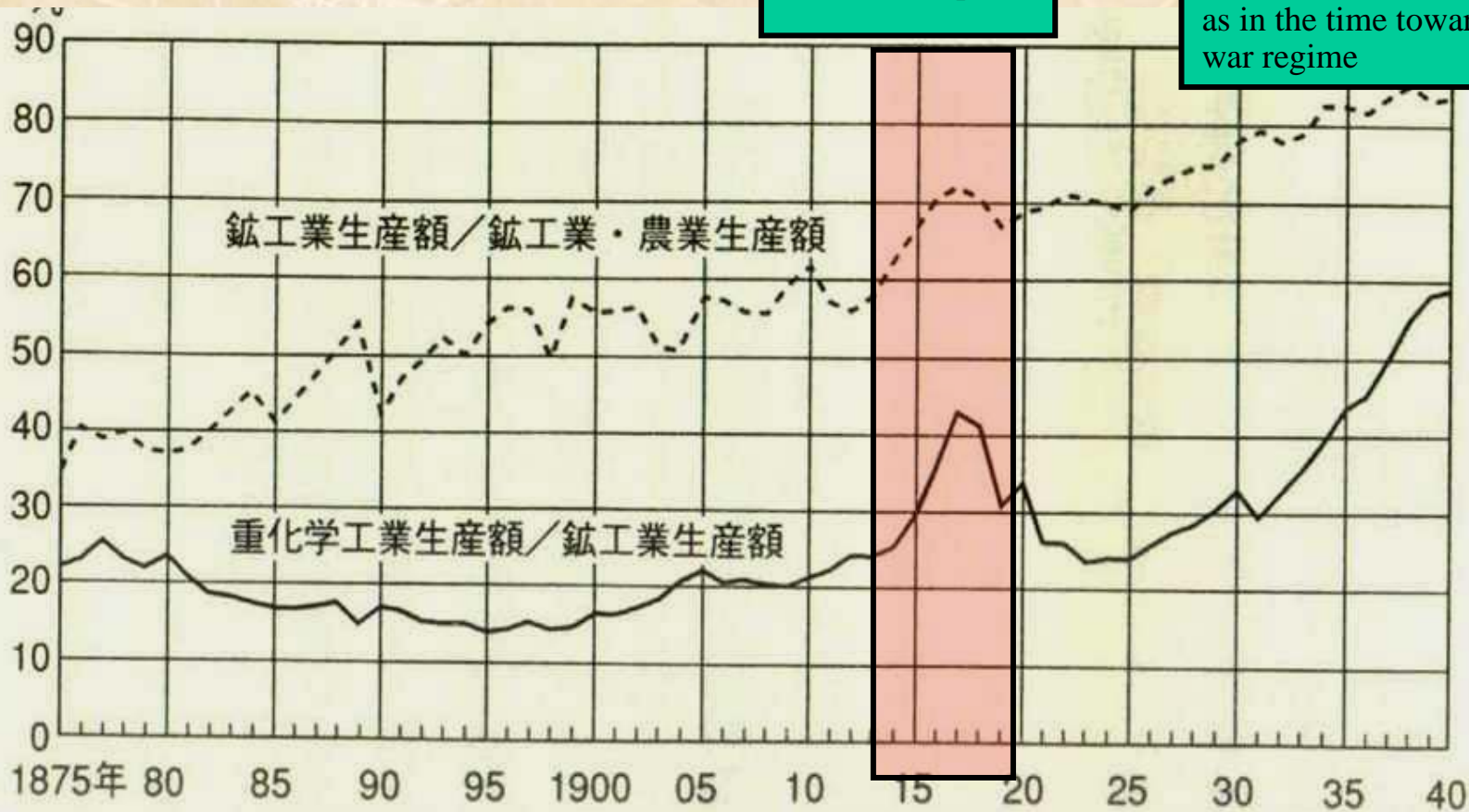
(Source) Based on *Session: Study on Imperialism No. 6* by Hiroaki Yamazaki and others (1973, Aoki Shoten), the data for 1937 was drawn by complementing information from *Industrial Statistics Tables*, *Trend of Domestic Mining Industry* (coal and nonferrous metal), *Long-Term Economic Statistics: Railway and Electricity* edited by Kazushi Ohkawa (1965, Toyo Keizai Shinpo-sha). To enable comparisons throughout the period, some parts of the classification by Yamazaki was modified (e.g., government-operated steel plant, pig iron and steel were treated in one lump as iron & steel) and the production value was revised.



# World War I and heavy and chemical industries

Heavy chemistry industrialization of industrial structure advances, almost same as in the time toward a war regime

World War I period



資料：篠原三代平『鉱工業』、梅村又次ほか『農林業』

## 1-1-3 Outbreak of Speculative Boom

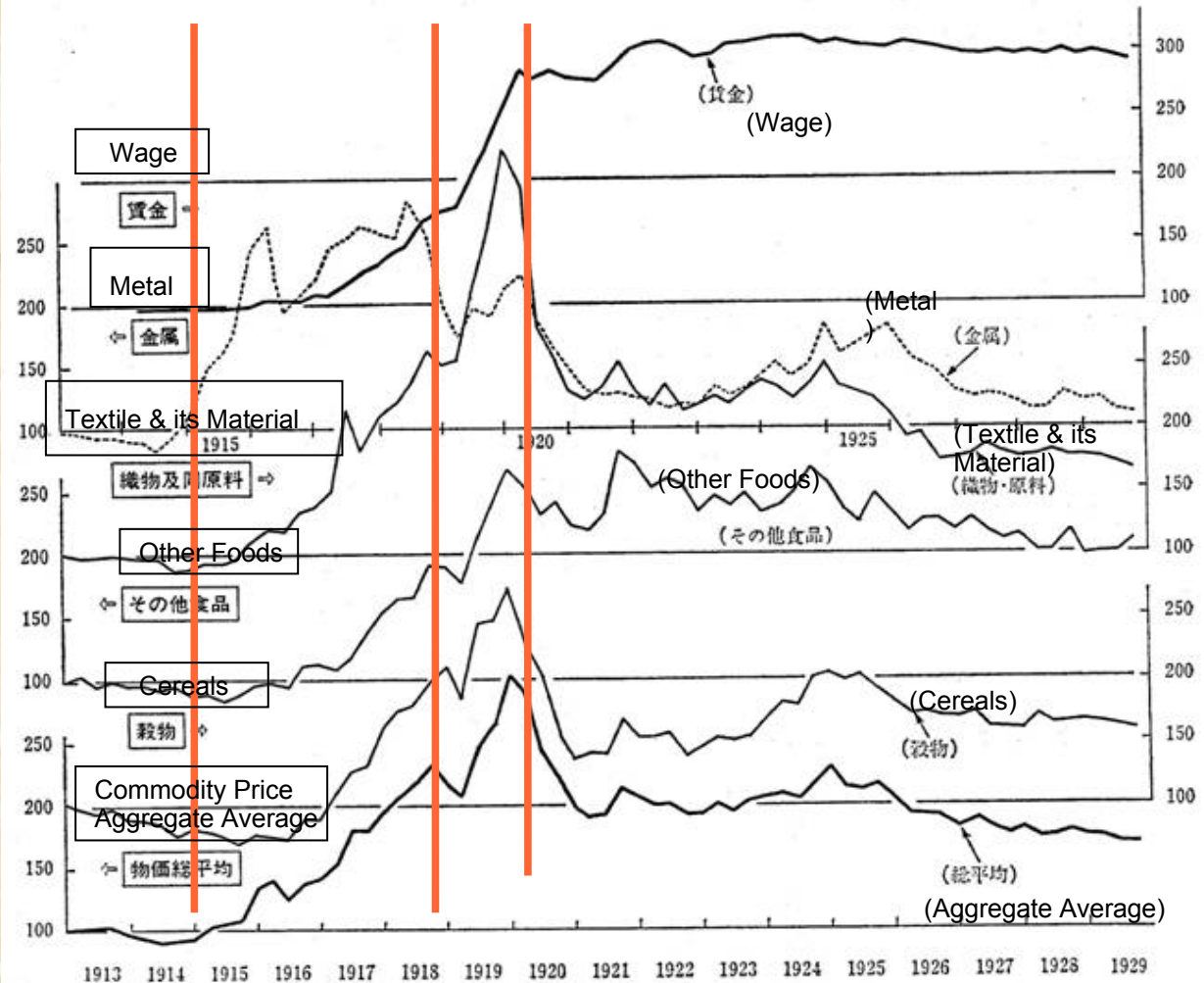
- Upturn in stock prices in the background of lowering interest rate, rising prices, positive earnings of corporations  
→ Basis for the speculation boom
- Under the abnormal upswing of corporate foundations, what were reasons for funds to head not for investments, but for speculations?



# Transit of Commodity Prices and Wages

Lagging wage increase  
 ↓  
 Declining real wage  
 ↓  
 Increasing disputes due to complaints about hard living

Diagram2 Transit of Commodity Price Index Category and Wage Index (1913=100)  
 図2 物価類別指数・賃金指数の推移 (1913年=100とする)



〔出典〕 賃金は商工大臣官房統計課『賃金統計表』1930年、物価は東洋経済『日本の景気変動』1931年より作成。

(Source) Wage from *Wage Statistics Tables 1930* by Statistics Department of Minister's Secretariat, Commerce & Industry Ministry, and Commodity Price from *Business Trend of Japan 1931*, Toyo Keizai

# Increase in Labor Disputes

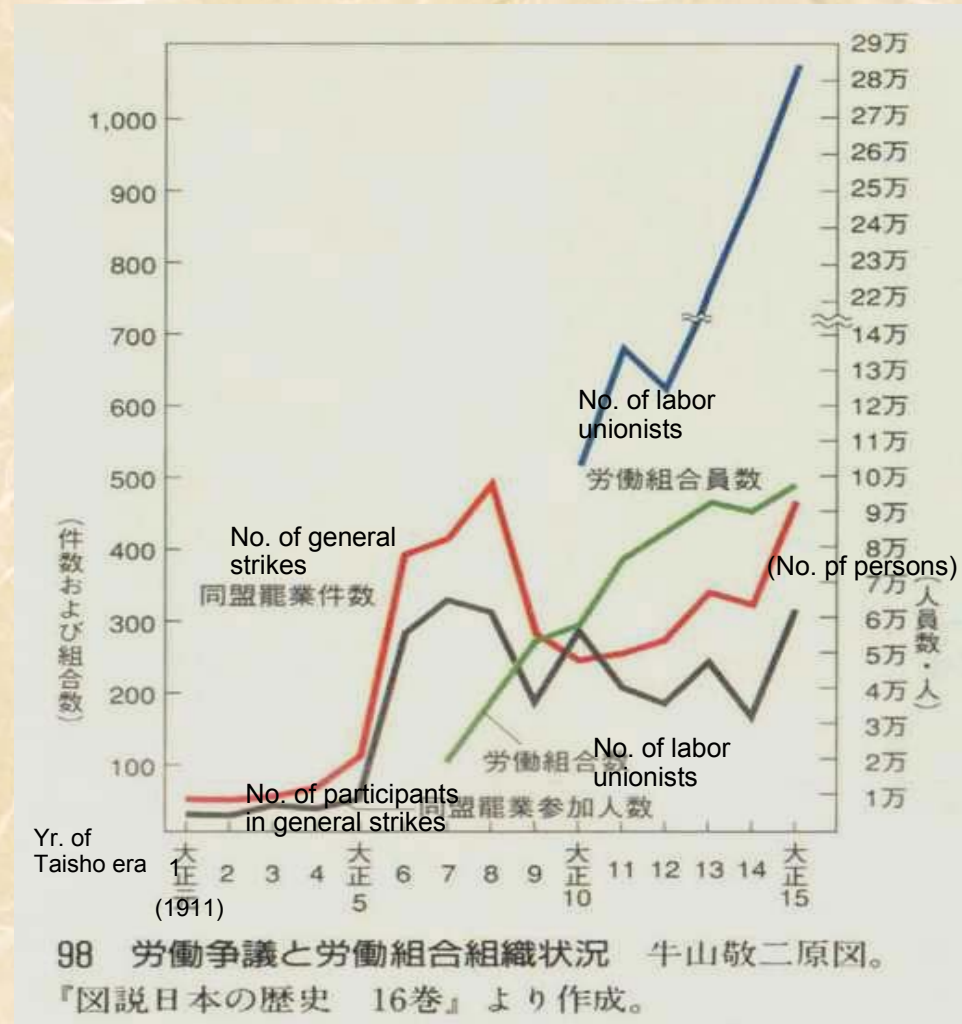
(in ten thousand)

Due to the rise in labor disputes, labor-management relations in Japanese industries and corporation induced important reorganizations.

Avoiding losses by labor disputes during WWI period, however, the management side accepted improvements in working conditions in compromise.

→ Increase in wages

For, corporations under the boom were possessed of high capacity to pay thanks to thick profits.



**98 Status of Labor Disputes and Labor Union Organizations**  
Original drawing by Keiji Ushiyama. Drawn from *Illustrated History of Japan Vol. 16*



# Trend of Real Wages

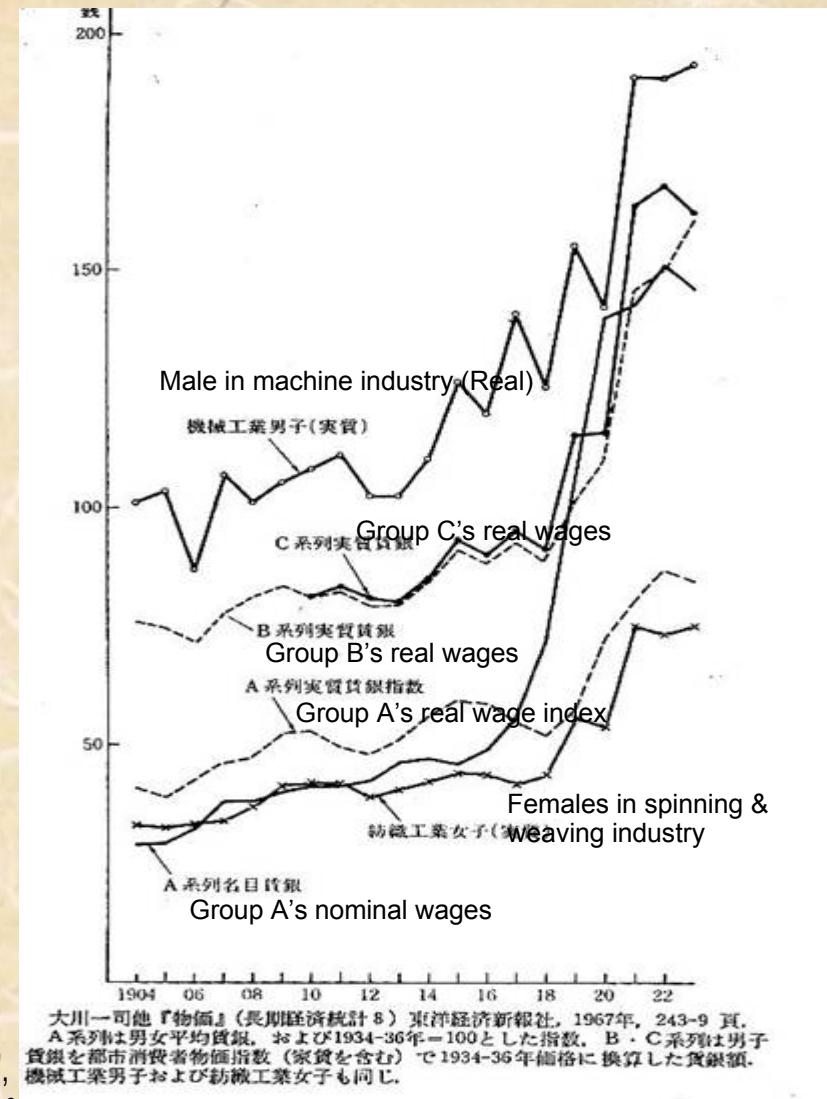
Note that decreases in real wages are measured differently by statistics, unlike an observation through the overall statistics.

Wages of specific industries like machine industry (including shipbuilding) that constituted the boom's forefront showed an upward trend from the beginning of WWI.

←Headhunting due to labor shortage, resulting in wage hike

In sum, the wage growth was attributed not only to a proactive factor of workers in disputes/union activities, but also to a rapid change in the

labour market.



Kazushi Ohkawa, others, 'Long-term Economic Statistics 8', *Commodity Prices*, 1967, Toyo Keizai Shinpo Sha, pp. 243-9

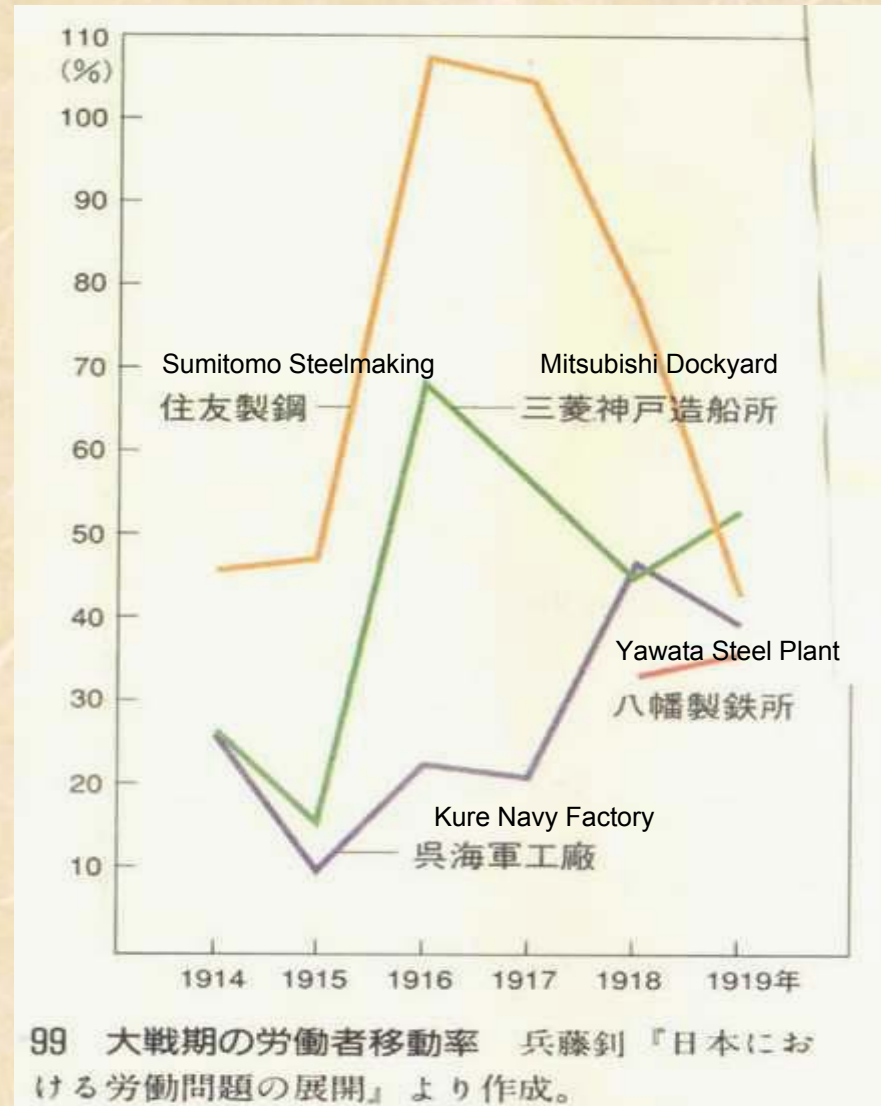
**Group A:** Average wages of both genders, and their indexes with ones in 1934-36 set as  
**Group B & C:** Wage amounts of males that were converted to 1934-36 prices using urban consumer price indexes (including rent). The same conversion applies to **Males in machine industry**, and **Females in spinning & weaving industry**.

# Rapid Employee Turnover

High turnover ratio from the beginning

“Transfer” was a worker’s way of protest in WWI period.

Scrambles by corporations drove it up.



99 Labor Flux in WWI Period Drawn from *Development of Labor Issues in Japan*, Shou Hyodo



## 1-1-3 Outbreak of Speculative Boom

- Meanwhile, a credit ease under a massive trade surplus
  - the supply-side control of money by a **sterilization policy** on the specie money → curb on price hike
  - But failed to control price.

### About a sterilization policy on the specie money:

- Under the gold standard, an acquisition of foreign currency based on export surplus is directly connected to an increase in the central bank's reserves to issue notes, which increases money supply, eases domestic money market, and poses a risk of speculative price hikes.
- On this matter, the government employed a currency contraction policy by buying out with its financial surplus the central bank's foreign currency to take it off the note-issue reserves. This is called a sterilization policy.
- Additional efforts were made by the government to curb an increase in the specie money through overseas investments such as positively taking up war bonds of the allied nations (mostly Russia, U.K. and France).
- The investment in China, i.e. "Nishihara Loan", to subsequently develop into a problem, carried such mission of the foreign investment.

## 1-1-3 Outbreak of Speculative Boom

- Meanwhile, a credit ease under a massive trade surplus  
→ the supply-side control of money by a **sterilization policy**  
on the specie money → curb on price hike  
But failed to control price.
- “Condition to constrain expansion of investments” in  
existence  
Deficiency in supplies of capital investment commodities  
due to the heavy industry’s immaturity = Limitations in the  
WW boom, enlarged a speculative boom



# Mechanism of Speculation Outbreak

Bullish scenario ①International price hike, ②Fixing of foreign exchange  
→③Sharp increase in domestic prices  
④Climb in corporate profits, ⑤Constraint on investments  
→“Money glut” = Easy credit = Decline of interest rates

## basis of Speculation

Upturn in corporate performances → Climb in share prices → Speculation in stocks

Price hike → Speculation in commodities such as rice and cotton yarn

# Mechanism of WWI Boom

Chart 1-1 Mechanism of World War Boom

